

**COUNTY OF MONO**

**Management Report  
For the Year Ended June 30, 2009**

MGT. LTR.  
2/11/10

# COUNTY OF MONO

## Management Report For the Year Ended June 30, 2009

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GALLINA<sup>LLP</sup>

CERTIFIED PUBLIC ACCOUNTANTS

To the Honorable Members of the  
Board of Supervisors of the County of Mono  
Bridgeport, California

In planning and performing our audit of the basic financial statements of the County of Mono (County) for the fiscal year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered its internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls.

We previously reported on the County's internal control in our Single Audit report dated January 22, 2010 which contains our report on significant deficiencies and material weaknesses in the County's internal control. This letter does not affect our report dated January 22, 2010, on the basic financial statements of the County of Mono.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This report is intended for the use of management, the Board of Supervisors and officials of the federal and state grantor agencies and should not be used by anyone other than these specified parties.

We thank the County's staff for its cooperation during our audit.

GALLINA LLP

A handwritten signature in cursive script that reads "Gallina LLP".

Roseville, California

January 22, 2010

## COUNTY OF MONO

### Management Report Required Communication For the Year Ended June 30, 2009

#### **The Auditor's Responsibility under U.S. Generally Accepted Auditing Standards and OMB Circular A-133**

As stated in our engagement letter dated May 21, 2009, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

#### **Planned Scope and Timing of the Audit**

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 21, 2009.

## COUNTY OF MONO

### Management Report Required Communication For the Year Ended June 30, 2009

#### **Qualitative Aspects of Accounting Practices**

##### *Significant Accounting Policies*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2009. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

##### *Significant Accounting Estimates*

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements were:

- Liability for self-insurance claims: Management's estimate is derived from actuarial valuations derived from experts. We agreed to claim's liability reported in the financial statements to those reported in actuarial reports prepared and issued during the year being audited.
- Liability for solid waste landfill closure and postclosure costs: Management's estimate is based on engineering estimates of future costs to be incurred. We reviewed the engineer's estimate.

#### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in performing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

## COUNTY OF MONO

### Management Report Required Communication For the Year Ended June 30, 2009

#### *Material Misstatements Corrected by Management*

The following material misstatements that we identified as a result of our audit procedures were brought to the attention of, and corrected by, management:

- Accounts payable and related expense accounts were adjusted by \$103 thousand to properly account for invoices paid subsequent to year end and not properly accrued.
- Several significant adjustments were made to receivables and deferred revenue:
  - Receivables of \$687 thousand not collected within the County's 60 day availability period was not properly recorded as deferred revenue in the Governmental fund statements.
  - The County recorded duplicate journal entries for a receivable amount of \$284 thousand resulting in an overstatement.
  - The County incorrectly recorded cash receipts as a reduction to accounts receivable instead of to a revenue account resulting in an understatement of accounts receivable and revenue by \$112 thousand.
- The capital assets balance was understated by \$147 thousand in the Airport Fund which were not added to the County's capital asset system for capitalization.
- Capital assets were restated in the Solid Waste fund in the amount of \$334 thousand as they were previously accounted for in the estimate of the landfill closure costs.

#### *Immaterial Misstatements Not Corrected by Management*

Management passed on the following adjustment:

- Record liability of \$42 thousand in Solid Waste enterprise fund to properly account for a retention payable for construction.
- Adjust total pooled cash to account for the fair value of the County's investments at June 30, 2009.

Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

#### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

## **COUNTY OF MONO**

### **Management Report Required Communication For the Year Ended June 30, 2009**

#### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated January 22, 2010.

#### **Management Consultations with Other Independent Auditors**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### **Other Audit Findings or Issues**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.



# COUNTY OF MONO

Management Report  
For the Year Ended June 30, 2009

## DEPARTMENT OF FINANCE/AUDITOR-CONTROLLER

### **SOLID WASTE ENTERPRISE FUND - GENERAL LEDGER**

#### Condition

The County did not properly utilize its general ledger to account for the activity of all the assets and liability accounts, including interest earned on accounts with the trustee, interest expense related to certificates of participation, capital asset purchases and disposals and depreciation expense. For example, the County recorded the annual change in the trustee account balance as an adjustment to equity instead of adjusting the accounts affected by the change, including interest income and debt service expense.

#### Effect of Condition

Accurate financial statement information cannot be compiled using the County's general ledger balances for the solid waste enterprise fund. In addition, recurring adjustments are required at year-end to reconcile fund equity to compile the year-end financial statements.

#### Recommendation

We recommend that the County modify its process for recording activity in the solid waste fund's general ledger. The County should refrain from posting accounting adjustments directly to equity, a self-balancing account.

#### Management Response

Management has been advised of this circumstance. There had been a prior misunderstanding, of how changes were expected to be posted, but with a new understanding of what is desired, the County will change the way the recording of trustee accounts is handled.

# COUNTY OF MONO

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## DEPARTMENT OF FINANCE/AUDITOR-CONTROLLER (continued)

### USE OF MISCELLANEOUS REVENUE ACCOUNT

#### Condition

We noted that the County's use of the miscellaneous revenue account (account 1701) include various types of revenue, including intergovernmental revenues and revenue generated from charges for services. During the audit, we noted that the miscellaneous revenue accounts aggregated for County funds were in excess of \$2.3 million, including \$840 thousand reported in the capital projects fund.

#### Effect of Condition

The level of detail for classifying transactions should be sufficiently categorized so as to be meaningful to management in making decisions.

#### Recommendation

We recommend that the County consider restricting the use of its miscellaneous revenue account for revenue sources that cannot be categorized under the existing revenue types, including charges for services, fines, intergovernmental revenues, and licenses and permits.

#### Management Response

The use of the Miscellaneous Revenue has a long history of use within the County as a "Catch-All" account for one-time monies and use in funds other than the General Fund. The County acknowledges these observations and as the County has been working on closing funds, it has also been working on monitoring and setting up new, appropriate accounts. This is a work in progress.

# COUNTY OF MONO

Management Report  
For the Year Ended June 30, 2009

## DEPARTMENT OF FINANCE/AUDITOR-CONTROLLER (continued)

### DISAGGREGATION OF RECEIVABLES

#### Condition

GASB Statement No. 38 requires components of significant receivables to be disclosed separately in the notes to the financial statements if not visible on the face of the financial statements. Components of receivables include accounts receivable (due from citizens), taxes (property, sales taxes, transient occupancy) receivable, interest receivable, amounts due from other governments and notes receivable. Currently, the County records accounts receivable and due from other governments within the same receivable account.

#### Effect of Condition

By not properly disaggregating receivable amounts, the character of receivables can not be determined except through time-consuming analysis of each transaction posted to the County's receivable accounts. Note disclosure information is more accurate and the gathering process is more efficient when it is derived directly from the County's chart of accounts.

#### Recommendation

We recommend the County modify its chart of accounts to include separate accounts for accounts receivable and amounts due from other governments. Year-end closing procedures should be modified to capture receivable balances into each of these accounts according to their nature.

#### Management Response

The County will take note of this condition and strive to make this change in 2009-10 fiscal year and take this into account as they migrate to a new financial system.

# COUNTY OF MONO

## Management Report Status of Prior Year Recommendations As of June 30, 2009

RECOMMENDATION	STATUS
<b><u>DEPARTMENT OF FINANCE/AUDITOR-CONTROLLER</u></b>	
<u>Solid Waste Enterprise Fund General Ledger</u>	In progress.
We recommend that the County modify its process for recording activity in the solid waste fund's general ledger. The County should refrain from posting accounting adjustments directly to equity, a self-balancing account.	
<u>Use of Miscellaneous Revenue Account</u>	In progress.
We recommend that the County consider restricting the use of its miscellaneous revenue account for revenue sources that cannot be categorized under the existing revenue types, including charges for services, fines, intergovernmental revenues, and licenses and permits.	